British exceptionalism will haunt financial services – and the rest of UK plc

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The long-expected confirmation that the UK will not include financial services in its tentative talks about closer alignment with European Union, our largest trading partner, shows we have learnt little from the fraught relationship we often had with the EU when we were members. The constant striving for British exceptionalism often soured and weakened our position with the bloc. It will do the same again.

Brexit has damaged the UK economically. Whatever data you look at the story is depressing.

The Office for Budget Responsibility has consistently said that GDP is 4% lower as a result of breaking with the EU in the hardest of hard Brexits. The US National Bureau of Economic Research recently went further, suggesting the damage could be in the region of 6% to 8%. Services exports – including financial services – have been estimated to be 4% lower due to Brexit.

We clearly need to look at how we can repair this damage and start rebuilding our trading relationship with the EU is essential. It should be central to the government's much proclaimed growth agenda. The easiest and most obvious routes are by rejoining the Customs Union and the Single Market. Leaving these was not on the Brexit referendum ballot paper in 2016. They were the misguided choices of a Conservative government striking ever more macho poses over Brexit to the lasting detriment of the country.

The government is pushing for closer alignment with EU rules in some areas, such as food standards and animal welfare, while now ruling out financial services. But why should the EU accept this return of British exceptionalism? Why should it allow us to pick and choose? Does that really put us in a strong position? Surely, it will just allow the EU to pick which areas will benefit it most, often that might be a mutual benefit but where it sees no benefit to its member states it will just say no.

Struggle to justify separate UK regulatory regime

While there are inevitably voices raised in favour of maintaining an independent regime for UK financial services, they struggle to demonstrate a credible justification. They cite an increase in stock market flotations as one of the key uplifts but that is a worldwide trend.

On the debit side, there is the increased costs imposed on any financial business looking to service European clients. Gone is the passporting regime. They have had to establish new well-staffed offices in Europe. The products – such as insurance cover for European clients – have to comply with the requirements of the local regulators which are all derived from the EU rulebook. Ironically, in many areas the EU's financial services regulatory regime was largely shaped by the British, especially in the run-up to the creation of the Single Market in 1992.

Then, there has been the cost and time expended on creating an alternative UK regime. When you look at the outcomes across different areas of financial services you really have to ask: “was it worth it?”. The changes are often little more than cosmetic, maybe occasionally benefitting firms purely trading in the UK but doing nothing for the international businesses that have been the traditional powerhouses of the City. The scrapping of the cap on bonuses is sometimes touted as a benefit, helping us win the global war for talent in the sector. That is a dubious claim. More serious is the impact it will have on wealth inequality which, in turn, will inhibit economic growth and improvement in productivity. Offset against that is the limitations on free movement which now present a barrier to talented young people wanting to move to the UK.

The City of London and its financial services sector are still making significant contributions to the UK economy, more despite Brexit than because of it. How much bigger and more vibrant would the sector be if it could throw off the shackles of Brexit. They are the inhibitors to greater success, not the imagined restrictions of having to trade within the carefully crafted rules of our largest trading partner.

Let’s be honest: Brexit is broken and it needs boldness to fix it, not the blinkered exceptionalism of the past.